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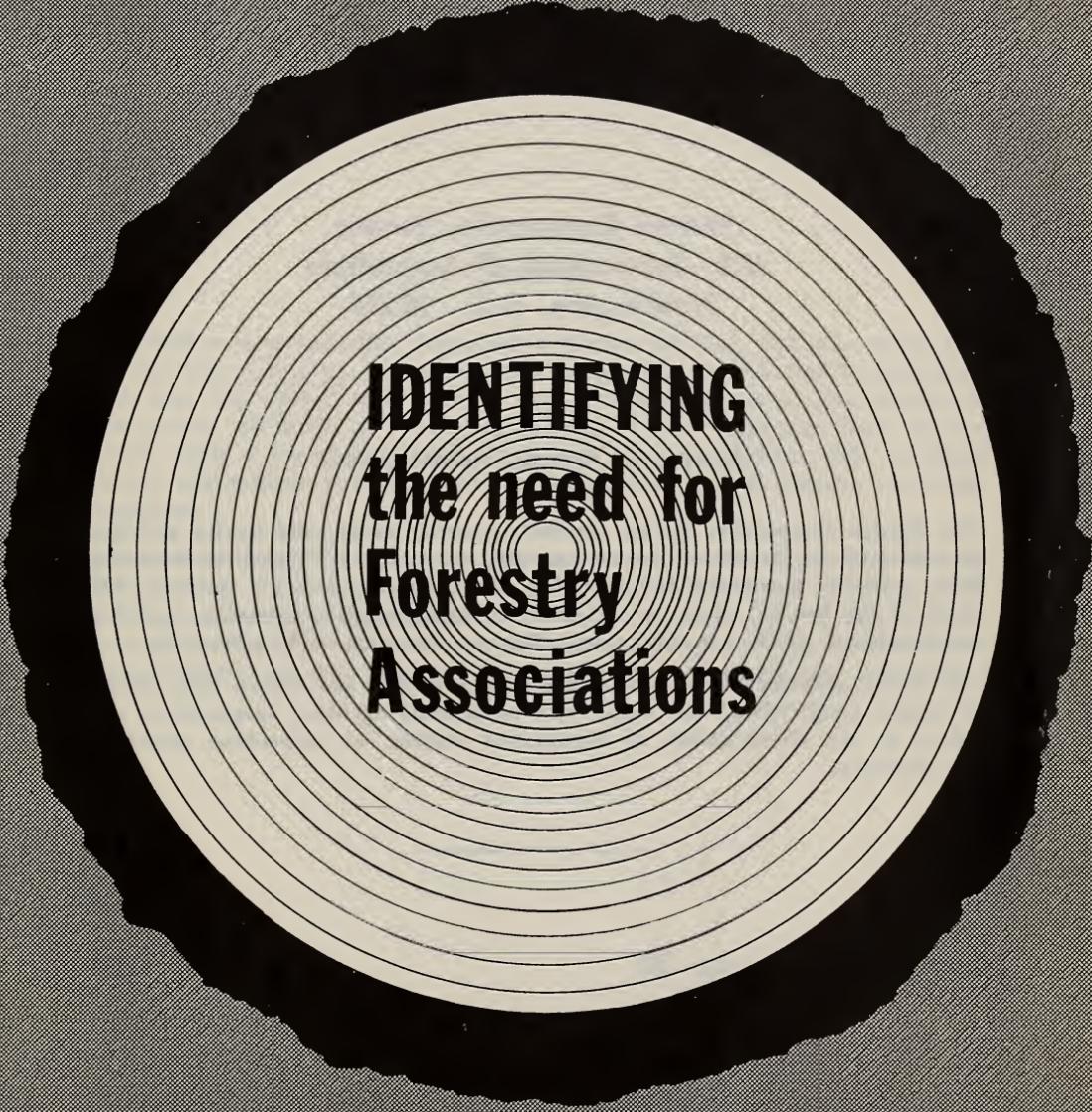
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**IDENTIFYING  
the need for  
Forestry  
Associations**

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Farmer Cooperative Service  
U. S. Department of Agriculture

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U.S. Department of Agriculture  
Washington, D.C. 20250**

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**The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.**

**The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.**

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**Educational Circular 20**

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## **Preface**

**Woodland owners and others interested in forestry are more and more re-examining the role of forestry associations and the possible benefits that can come from their use. The field is wide open for improved management of farm woodlands and greater efficiency in forestry operations. Timber marketing from smaller woods needs a lot of improving. And there is ample evidence that woodland owners and primary processors can use cooperatives to help improve marketing conditions.**

**This publication provides a guide for State Forestry-based Cooperative Advisory Groups, State Technical Action Panels (the Statewide Committee operating under the rural areas development program) and others to use in helping form associations of woodland owners or primary processors of forest products. It outlines the steps involved and some important things to consider in organizing a cooperative.**

## Contents

	<i>Page</i>
Step one—hold a general meeting -----	1
Discuss idea of forestry association -----	2
Point out merits of group action -----	2
Point out limitations of an association -----	3
Step two—evaluate criteria for effective operations -----	3
Serve an economic need -----	3
Have sufficient volume -----	3
Be adequately financed -----	4
Have competent management -----	4
Provide two-way service -----	4
Step three—report on survey findings -----	4
Step four—form the association -----	5
Assistance available -----	5
Appendix -----	6
Secretary's Memorandum No. 1540 -----	6

# IDENTIFYING the Need for Forestry Associations

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Nearly two-thirds of the commercial forest acreage in the United States is in small private ownerships that average less than 100 acres in size. Farmers own half this acreage. These holdings are principally located close to the major centers of population and are potentially the most productive of the Nation's timber resources.

Over the years, however, it is these holdings that have presented the most serious management and marketing difficulties to their owners and to others interested in promoting better forestry.

Unlike public ownerships and tracts owned by forest industries, farm ownerships generally have not attracted the management and capital required to carry on good production practices.

Operated individually, these holdings are often too small to justify the capital, labor, and management needed to produce good yield and high quality. Neither can farm woodland owners afford to invest in the equipment needed for efficient harvesting. Costs simply outweigh prospective returns. In addition, most owners lack experience in logging and marketing forest products and thus fail to obtain full value for their sales.

Small farm woodland holdings also present problems from the viewpoint of primary processors. Sales from individual tracts are usually not of the size or character needed to satisfy the requirements of even a typical small-scale sawmilling operation in most parts of the country. As a result, processors spend a great deal of time and incur considerable expense in negotiating contracts with individual owners.

Farmers, primary processors, and others are showing an increasing interest in the role that timberland management and wood products harvesting, processing, and marketing associations might have in helping overcome some of these operating problems.

This interest is evidenced by the number of requests for assistance and information now being received by various local community leaders, land-grant colleges and universities, and by State and Federal Government offices.

Farmer Cooperative Service, in consultation with the Forest Service and other agencies, prepared this report in response to such requests.

The first three sections of the report outline the steps to follow and factors to evaluate in identifying the need for a forestry cooperative.

Primary considerations in forming the association are discussed in the fourth section.

The fifth section, "Assistance Available" discusses some new programs developed in recent years that can help in the study of possibilities for forestry-based associations. These include the recently organized USDA Committee on Forestry Cooperatives, and State Forestry-based Cooperative Advisory Groups already established in some States and being considered in others.

Those desiring additional information on forming a cooperative, sources of financing, types of loans available, and the rural areas development program are referred to the publications listed on the back cover. Copies of each may be obtained by writing to the issuing agency.

Throughout the report, the words cooperative and association are used interchangeably. Although the term association is more commonly used among people trained in forestry, there are some instances in which the term cooperative is more appropriate.

## Step One—Hold a General Meeting

The first step in identifying the need for an association is to have an open meeting of woodland

owners, primary processors, or both, and other interested persons.

The purpose of this meeting is to explore the problem and to see if group effort can bring about a satisfactory solution.

A key community leader should assume responsibility for arranging the meeting, inviting local people, and obtaining qualified people to discuss various aspects of the proposed venture.

The people invited to this open meeting should include a forester, a specialist in cooperative organization and operations, and a rural areas development specialist. When States have established a Forestry-based Cooperative Advisory Group made up of these and comparable specialists, they can study such forestry association proposals.

### **Discuss Idea of Forestry Association**

At the initial meeting, the prospective organizers need to be informed of what a cooperative is and how this type of organization differs from other forms of business arrangements.

The point that should be emphasized is that a cooperative is a business organization controlled by its member-patrons for their mutual benefit as patrons.

Two important ideas are inherent in the cooperative form of organization. First, members are both the owners and users and operations are conducted on a cost basis. Thus, any savings above the cost of doing business is returned to members as patronage refunds in proportion to their use of the association (their patronage). Some cooperatives do pay moderate dividends before paying patronage refunds, but such stock dividends are ordinarily limited by their bylaws to 6 percent or less.

This patronage refund is one important identifying feature of a cooperative that distinguishes it from the partnership and the regular corporation. It is the method that brings the cost of providing service to members down to the cost incurred by the association in performing the service.

Therefore, producers or processors contemplating a cooperative arrangement should consider whether they can obtain services for themselves at a lower cost than they can get from other businesses.

The second basic idea that should be conveyed to prospective organizers is that an association is a group activity. Neither producers nor processors should be encouraged to enter into a cooperative arrangement unless they are convinced they can market, purchase, or obtain management services more effectively as a group than individually.

In addition, they should not organize unless they are willing to accept decisions made by a majority

because these decisions affect the actions of the individual.

Membership agreements, contracts, and pooling of products, for example, are tools used by cooperatives to increase group returns in the long run. There can be times when the short run advantages to the individual may not be too evident.

Decisions about such agreements and policies are reached by democratic methods, and for the association as a whole. Democratic control generally is provided by each member having one vote at association meetings, regardless of the amount of stock the member owns or the volume of business he does with the association.

### **Point Out Merits of Group Action**

The advantages group action offers over individual operations need to be explained at all initial meetings.

A group arrangement can help small woodland owners and forest product processors solve some of the management and marketing problems associated with uneconomically sized operations. Small forestry operations by individuals offer poor prospects for profits. A major reason for this is that the cost of management, supervision, and depreciation on equipment is prohibitively high.

When small operations are combined, production costs to the individual can be lowered, improved practices to increase yield can be used, and marketing can be more effective. Thus the prospects for profitable operations are usually much improved for the following specific reasons:

- Small tracts of merchantable timber scattered over a wide geographic area can be brought into operation. This will permit cutting on a commercial basis. As a result, timber stands in the area can be given better care and management.

- Marketing timber of comparable species, grade, and size as one lot, rather than as several lots sold on the basis of individual ownership, enables growers and processors to better meet the needs of buyers.

- By pooling orders for supplies and equipment, forest owners and processors can obtain discounts for quantity purchases and also reduce the cost of transportation.

- By consolidating the money they are able to pay for management, woodland owners and processors can afford to pay salaries needed to attract and keep capable managers.

- And, a cooperative, forest-based enterprise increases the possibility of obtaining financial assist-

ance from both public and private sources. A corporate form of organization with its separate legal entity provides a more secure basis upon which to make loans than do individuals.

### **Point Out Limitations of an Association**

It should be made clear at this meeting that an association does not automatically solve all problems. First, an association cannot guarantee success. It is simply a way of doing business. Like the individual proprietorship, partnership, or corporation, an association must operate on a businesslike basis if it is to succeed.

Second, organizing as an association cannot assure producers or processors that they will be able to obtain adequate financing. This applies to the district banks for cooperatives of the Farm

Credit System as well as other sources. These credit sources lend money only to associations with the organization, management, and business policies that insure a good prospect of repaying the loan. Furthermore, they may require patrons to supply a substantial part of the initial capital.

Third, organizing as an association is no guarantee that woodland owners will automatically assume an adequate interest in managing their forest holdings. Many owners of small forest properties simply do not look upon their timber holdings as an integral part of their farming operation. Others have neither the interest nor know-how to actively manage their holdings. Where such attitudes prevail, a cooperative arrangement can be effective only if participants are willing to give the association exclusive management privileges.

## **Step Two—Evaluate Criteria for Effective Operations**

If woodland owners or processors show a sufficient interest in organizing an association at the first meeting, they should then appoint a committee to make a thorough survey of the area in which the proposed organization shall operate.

This committee should be representative of the larger group. Members selected should have a sincere interest in the proposed venture, capacity to exercise sound judgment, and good character.

In most cases, this committee will require assistance in developing the survey plans and in collecting needed information. In these instances, a local State service forester, an extension specialist in marketing, the county agent, a representative of the State Department of Agriculture, or some other person who is responsible and available, may be placed in charge of the survey.

Some portions of the survey will involve personal interviews with farmers, processors, buyers, bankers and perhaps others. This interviewing may be done by interested farmers, processors, graduate students, staff members of public agencies, or other qualified personnel.

At a minimum, the survey should determine if an association will serve an economic need, have sufficient volume of business, be adequately financed, and provide a two-way service.

### **Serve an Economic Need**

A forestry association can be effective only if it serves an economic need. It is courting failure to

organize an association on the basis of such factors as community pride, over-enthusiastic promises, antagonism toward present operators, or frustration. It is also courting failure to assume without examination that an association is needed and that it would be successful if formed.

How does one determine whether an economic need exists? Part of the answer to this question can be obtained by analyzing the type, number, and adequacy of available services. Only when existing commercial facilities or services are inadequate, costs for services rendered too high, or prices received by farmers or processors too low are the conditions favorable for creating a cooperative.

The survey committee will thus need to work out careful comparisons of what they can expect to earn with and without the organization or by using some other type enterprise. Unless an association can show greater returns to patrons in the long run, there may be no economic reason for it to be organized.

### **Have Sufficient Volume**

One of the most important facts which the survey should show is the probable volume of business that might be handled by the association.

The acreage or volume represented by the proposed cooperative must be sufficient to support the overhead and day-to-day operating costs and also result in a margin of savings.

The volume must also be large enough to permit the organization to perform the services required at

a cost per unit comparable to that of individually owned business.

Organizers of an association cannot take for granted the willingness of woodland owners or forest product processors to provide the volume needed for effective and efficient operations. Some owners or processors will participate as a group and will in turn get others to participate. But, some individuals in every community will refuse to participate in the proposed cooperative effort.

The time to find out who will support a proposed association is before—not after—organizing. The way to find out is by obtaining firm commitments before organizing.

The best way to obtain a firm commitment is to ask each prospective member to sign a pre-organizational agreement. This agreement can specify that the association will be organized only if the desired volume can be obtained by a stated time. Thus, incorporation expenses will not be incurred unless prospective members are willing to furnish the acreage or volume required for an economic operation.

### **Be Adequately Financed**

The survey should also determine whether the proposed association can be adequately financed. To have a stable existence, it needs sufficient operating capital, adequate facilities, and reasonable reserves for emergencies and contingencies.

Prospective members should be encouraged to supply as large a proportion of the fixed capital requirements as possible. The more they invest in their organization, the more likely they are to take an active interest in the operation and support it with their patronage.

It will probably be necessary for the proposed association to borrow funds to supplement those supplied by members.

The survey team should analyze these sources and recommend those which can supply the required financing. Possible sources include the bank for cooperatives, commercial banks, insurance companies, individuals, and other farmer cooperatives.

If financing cannot be obtained from these sources, the Farmers Home Administration (FHA) has available financing for some forestry associa-

tions through Soil and Water lending authority and Economic Opportunity Act authorizations.

The survey team may contact local or State FHA personnel about these possibilities when the need for such financing is clear.

### **Have Competent Management**

To be effective, a forestry association must have competent management. There is every reason to believe that poor management may be credited with a major portion of the failures among forestry associations as well as other types of agricultural cooperatives.

Unless an association can afford to hire a capable, full-time manager, it is unreasonable to expect the organization to provide the maximum number of needed services, and to do it efficiently.

The general manager must be well-trained and well-paid. He must understand the commodity and the industry. He must have the interest of patrons at heart. He must be able to plan for the future of the organization. He must be able to work with the board of directors. And, above all, he must have the confidence of industry.

Managers with these qualifications are scarce. Existing marketing, purchasing, or farm service cooperatives may be one source of capable leadership. The survey committee may also find capable, qualified men in a wide variety of other positions.

### **Provide Two-Way Service**

A forestry-based association can be effective only if it is able to coordinate management and marketing activities of members with the outlets served. The most efficient production and harvesting practices are useless without efficient marketing. Likewise, the most elaborate marketing system can be wrecked if woodland management does not reflect buyers' requirements.

This means that existing and potential markets must be considered carefully. Comparing the needs of woodland owners and processors with the requirements of those markets that are thought best for the association will suggest the type of program to be undertaken by the association.

## **Step Three—Report on Survey Findings**

Following the survey, the committee should prepare a report on study findings to be presented at a

general meeting of woodland owners, primary processors, and other interested people.

The committee should discuss the report with the group to help them become more fully informed about the possibilities of the venture.

If the analysis indicates a desire and need for a forestry association, the committee may so report. If the facts suggest little or no chance for an association, the committee may make such recommenda-

tions as seem advisable.

If the report receives favorable consideration, the people at the meeting can then direct the survey committee to take the steps necessary to form the association. The group responsible for developing the plan and form of organization is designated as the organization committee.

## Step Four—Form the Association

At this stage in developing a forestry cooperative, the factors to consider are primarily legal, rather than economic, in nature.

The organization committee will have to decide such matters as whether the association is to be incorporated, methods of obtaining membership, nature and scope of the articles of incorporation and bylaws, and several other important issues.

To obtain the proper legal structure, the committee should hire the services of a competent attorney who is familiar with State and Federal laws governing cooperatives.

In addition to his legal ability, this attorney

should have a clear understanding of the principles of cooperatives, and the economic and business problems confronting the association.

It would also be helpful for the organization committee to confer with persons having practical experience in cooperatives and in forest technology before deciding on the form and plan of operation to be used.

Two publications of Farmer Cooperative Service, USDA—Educational Circular 18, *How To Start a Cooperative*, and Educational Circular 19, *Sample Legal Documents for New Cooperatives*—can be helpful to the organizational committee.

## Assistance Available

The Secretary of Agriculture has instructed all USDA agencies to work closely with associations of all types and actively encourage their development in rural areas, where needed. See Secretary's Memorandum 1540 included in the appendix.

In keeping with this recommendation, the Forest Service has been instructed to take leadership in encouraging and assisting in forming and operating forestry associations. These will include multiple-use forest land management, harvesting, processing, and marketing cooperatives.

The services of other agencies including Farmer Cooperative Service, Farmers Home Administration, Federal Extension Service, Rural Community Development Service, and Soil Conservation Service also are being used in developing the program. Representatives from each agency constitute the Department's Committee on Forestry Cooperatives. This committee was established Dec. 1964.

Another feature of the USDA Program for Forestry Cooperatives is the suggestion that the State Technical Action Panels operating under the rural areas development program establish a Forestry-

based Cooperative Advisory Group in each State where the need warrants and personnel are available. This group, as a minimum, should consist of a forester, a specialist competent in cooperatives, and a Rural Areas Development (RAD) specialist.

They will be available to make feasibility studies and recommend for or against the formation of forestry-based associations. They will send their findings to the State Technical Action Panel and to the local group requesting the study.

If the local group and the Technical Action Panel determine that an association is feasible, the Forestry-based Cooperative Advisory Group in the State can help organize the association and provide technical assistance when requested.

The USDA Committee on Forestry Cooperatives at Washington, D. C., develops guidelines for use by State Forestry-based Cooperative Advisory Groups and others in carrying out the USDA Program. It also prepares information, such as the material in this leaflet, for State Advisory Groups, RAD committees, State Technical Action Panels, and others in helping organize forestry-based associations.

# Appendix

## Secretary's Memorandum No. 1540

### Policy Statement on Cooperatives

The Department of Agriculture, by the Act which created it in 1862, is directed to acquire and diffuse useful information on matters pertaining to agriculture, in the most general and comprehensive sense of that term.

By numerous subsequent acts, the Department is also specifically directed to carry on research, educational, and service work respecting agricultural cooperatives, and to cooperate with local and State agencies to that end, provide credit to rural electric and telephone cooperatives, utilize the cooperative pattern in carrying out a number of its action programs, and accord "recognition and encouragement" to agricultural cooperatives.

It is the policy of the USDA to carry out the full intent of these legislative mandates effectively in terms of today's conditions and needs and in the light of the economic problems confronting American agriculture today.

The trend toward greater concentration of economic power in the non-agricultural segments of our economy—and, particularly, in recent years, in those segments that sell an increasing number of necessities to farmers as well as those that buy from the farmer and process and market his products—makes it more essential than ever that the farmer's bargaining power be strengthened.

The factors that, in decades past, resulted in repeated action by the Congress and the State legislatures to encourage farmers to strengthen their position through cooperatives become more impelling and urgent as the concentration of non-farm economic power increases.

Cooperatives help farmers to improve their bargaining position. As farmers cooperate with each other to gain mutual advantage and protection through self-help, they strengthen the American family farm system, and enhance the benefits that it provides to the general public.

The USDA will therefore accept fully its responsibility to encourage the growth of cooperatives and through its various agencies provide research, educational, and advisory services that will help to strengthen cooperatives in all appropriate activities in the interest of their members and the general welfare.

To that end each of the agencies of the Department will give proper recognition to the basic nature of cooperative enterprise, and will exercise its functions and perform its activities in full accord with the concepts and responsibilities stated above.

The head of each agency in the USDA is expected to insure that full support to the policy herein stated is given through his agency. The Assistant Secretary for Rural Development and Conservation shall serve as liaison to insure coordination within the Department and shall be responsible for working with the National Advisory Committee on Cooperatives.



## Other Publications Available

How Farmer Cooperative Service Works, Farmer Cooperative Service Information 26.  
Financing Farmer Cooperatives, Farmer Cooperative Service Educational Circular 5.  
Loans to Farmers' Cooperatives, Farm Credit Administration Circular 6.  
20 Years' Progress of Au Sable Forest Products Association, Farmer Cooperative Service Information 35.  
Loans to Rural Groups, Farmers Home Administration PA-560.  
Loans for Forestry Purposes, Farmers Home Administration PA-624.  
Loans to Rural Families with Small Incomes, Farmers Home Administration Fact Sheet (Unnumbered).  
Managing the Family Forest, U.S. Department of Agriculture Farmers' Bulletin No. 2187.  
Measuring and Marketing Farm Timber, U.S. Department of Agriculture Farmers' Bulletin No. 1210.  
Forest Industry Opportunities in Rural Development, Forest Service Agriculture Information Bulletin No. 222.  
Special Forest Products for Profit, Forest Service Agriculture Information Bulletin No. 278.  
Forest Recreation for Profit, Forest Service Agriculture Information Bulletin No. 265.  
How To Start a Cooperative, Farmer Cooperative Service Educational Circular 18.  
Sample Legal Documents for New Cooperatives, Farmer Cooperative Service Educational Circular 19.  
Multiple Uses of Family Forests, Yearbook Separate No. 3251.

*Copies of these publications may be obtained upon request while a supply is available from*

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